April 8, 2003

A.J. Yates
Administrator, Agricultural Marketing Services
Country of Origin Labeling Program
Agricultural Marketing Service, USDA
STOP 0249, Room 2092 – S
1400 Independence Avenue SW
Washington, DC 20250-0249

Dear Mr. Yates,

We thank the USDA and the AMS for this opportunity to express our concerns with the mandatory country of origin labeling provisions of the 2002 U.S. Farm Bill.

The Manitoba Weanling Export District is a federation of provincial hog farmers' representing the national and international interests of Canada's Weanling Exporters'.

As the USDA has indicated, this particular country of origin labeling legislation-with its requirements that only product form animals born, raised and processed in the United States can be labelled as product of the U.S. – is more restrictive than country of origin identification schemes in other jurisdiction.

A mandatory country of origin labeling system sets a bad precedent for other countries to whom both Canada and the U.S. export and whose domestic industries may well look for examples of mechanisms by which they too can try to dissuade consumers from purchasing imported products.

The Manitoba Weanling Exporters' has no difficulty with voluntary programs which, as part of domestic promotion efforts, highlight the availability of products from within the country. How4ever, mandatory systems impose marketing costs with no corresponding increase in consumer benefits in terms of q1uality and safety, and, we fear, become impediments to the free and open trade environments to which both of our countries are committed through such instruments as the NAFTA and the WTO.

We view it as very disappointing that the USDA has not been able to simply look at adopting existing NAFTA rules for tariff purposes; that is, that country of slaughter and processing confers origin.

Contrary to the expectation of U.S. legislators and the protectionist groups which they were intending to favour with the country of origin provisions of the new Farm Bill, virtually every analysis of COOL suggests huge costs for the U.S. parties on which it is being imposed.

Furthermore, it turns out that the record keeping and other costs of compliance with COOL provisions will fall disproportionately on smaller, independent farmers.

Management effort and capital requirements will have large fixed components regardless of size of operation and thus the cost per hog will be lower for the larger enterprises. Pigs originating from independent farmers will be subject to more record keeping and costs, a point we will touch on again later.

Recent communications from several individual U.S. pork processing companies – examples being Hormel, Swift, and IBP – bear out the large and expensive record-keeping obligations which COOL is creating for independent producers to ensure the packers are in compliance with requirements they in turn are being confronted with from their own customers, the food retailers.

Mandatory COOL will also create label information overload. The U.S. Food Marketing Institute has pointed out that "the end result will be a patchwork of confusing labels that conceal the product".

In addition to the implementation costs which mandatory country of origin labelling imposes on pork and other food producing farmers. Processors and distributors, there are other major economic impacts for the North American pork sector arising from COOL.

We expect mandatory country of origin labelling to negatively impact U.S. hogs slaughter capacity and competition. If, as we expect, many U.S. packers will cease purchasing Canadian born hogs due to costs of segregation, record-keeping, etc., the capacity utilization and, in turn, the economic viability of certain U.S. plants will be negatively affected thus potentially resulting in closure.

We fear that compliance costs will have to be absorbed largely within the meat and livestock sector rather than passed along to consumers. This is because, for pork and red meats to remain price competitive with poultry, which is not subject to mandatory labelling, the production and distribution chain will be forced to absorb the costs of COOL. The further deterioration in the cost competitiveness of pork relative to poultry meats will further depress the domestic sales potential for hog producers.

The imposition of mandatory COOL could also seriously upset hog production and marketing patterns within North America, leading to surplus production.

Last year, Canada exported almost 4 million feeder pigs and weanlings to the United States. If COOL discourages U.S. hog feeding enterprises from purchasing Canadian born feeder pigs due to costs of segregation, record keeping and lack of buyer (i.e. packer) interest, this will encourage increased feeder pig production in the United States.

At the same time, there could be an expansion taking place in feeding capacity here in Canada to finish the feeder pigs formerly shipped to the United States. Because here in our customers will not have a packer to sell to.

Such an increase of as much as 6% in North American hog supplies would undoubtedly result in severely lower prices to hog farmers. Forcing numerous small independent farmers who rely on Canadian piglets out of business.

Evidence that the initiative is not seen as being in the interest of the food industry in the United Sates is the strong opposition to mandatory country of origin labeling coming from such national organizations as the National Pork Producers Council, the America Meat Institute, the National Meat Association, the Food Marketing Institute, and the American Frozen Food Institute.

The U.S. Department of Agriculture was the first to issue an estimate of the costs of just the record keeping aspects of COOL, coming up with a figure of $2 billion in the first year of implementation; $1 billion each for the producer and the post farm gate segments of the marketing chain.

Analysis performed for the National Pork Producers Council, indicates COOL will cost producers about $10 per pig. This needs to be viewed in the context of current market circumstances where producer in the United States are receiving less than $100 for finished hogs. The study done for the NPPC also projected a 7 percent decline in U.S. consumption of pork due to the decline in its price and cost competitiveness.

Another analysis performed by the American economic analysis firm, Sparks Companies, which concludes that the costs for U.S. hogs will be very substantial, up to $11 per pig marketed.

On one hand, it adds to the credibility of the USDA and NPPC estimates of costs but it also reveals the significantly higher costs that will be born by independent, or non-integrated, producers. The Sparks study demonstrates the much higher record keeping and data verification costs that will occur in cases where ownership changes hands between farmers and processors.

An additional study, performed by the GMC in association with the Virginia Tech University, has concluded that mandatory country of origin labeling will have the following impacts:

- loss of independent farms and growth of large integrators
- loss of up to five hog packing plants
- lower hog prices
- a loss of economic activity to the U.S. economy amounting to over $4 billion (US)

Canadian live swine exports, as feeder pigs and slaughter swine, now account for 6% of total hogs processed in the United States. The Virginia Tech/GMC study indicates that “if the free flow of these weaners and feeders is stopped due to COOL, the livelihoods of approximately 1,300 independent farmer finishers in the U.S. will be placed in jeopardy”. Expected closures of packing plants and other developments could cause hog prices to fall significantly. Given the close economic links between the American and Canadian hog sectors, lower hog prices in the U.S. can be expected to lead to precisely the same in Canada.

We thank you for this opportunity to provide our views on the U.S. country of origin labeling guidelines. We will be pleased to address any questions or suggestions which committee members have and we will greatly appreciate your support in seeking repeal of mandatory country of origin labeling. Or a technical correction, changing it from mandatory to voluntary country of origin labeling.

Respectfully,

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